

Wards Affected:*'All Wards'***Public Sector Internal Audit Standards – External Review**

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Executive Summary:

To report the results from the independent external review of the Local Government Shared Services (LGSS) Internal Audit service compliance with PSIAS and the actions taken to improve those areas identified.

1. Recommendation(s)

- a. To note and consider the findings of the independent external review of the LGSS Internal Audit (IA) service compliance with PSIAS.

2. Issues

2.1 Internal Audit is a statutory requirement for local authorities under the revised Accounts and Audit Regulations 2015, which states that a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.

2.2 The Public Sector Internal Audit Standards (PSIAS) define the way in which internal audit should undertake its functions and requires that an external review be undertaken at least every 5 years. This was undertaken during 2016/17 by Tilia Solutions Ltd.

2.3 The full report is attached at Annex A.

2.4 PSIAS sets out several key areas including:

(a) Mission and Definition of Internal Auditing

(b) Core Principles of Professional Practice

- Demonstrates integrity
- Demonstrates competence and due professional care
- Independence – objective / free from undue influence
- Aligns with the strategies, objectives, and risks of the organisation
- Appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement
- Communicates effectively

- Provides risk-based assurance
- Insightful, proactive, and future-focused
- Promotes organisational improvement.

(c) Ethics

(d) Standards

(i) Attribute Standards

(ii) Performance Standards

2.5 Of the 14 inspection areas 9 were fully compliant (65%) and 5 partially compliant. The assessment:

‘identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity’

2.6 Consistent with that positive assurance many of the recommendations related to consistency across the three core LGSS sites as opposed to non-compliance with the standards e.g. sharing best practice, unified follow up procedure etc. The report did highlight:

- A lack of common practices across the three LGSS core sites
- Improvement needed in:
 - o Formally incorporating risk issues within audits
 - o Formalising terms of reference documentation across the three sites.

2.7 It is not considered unexpected that MK was highlighted as the ‘least integrated’ of the three sites. Initial testing was undertaken in June (only 2-3 months following the transfer to LGSS). The first 12-18 months was always recognised as a need to embed a ‘Single Shared Service’ ethos across all councils.

2.8 The review also highlighted the importance for the Committee to adhere to the Terms of Reference (ToR) for the Committee and avoid being drawn into political issues. As the report highlights, deviating from the ToR reduces ‘the effectiveness of the Committee to act as an independent and objective critical friend with regards to the operations of the business of the Council.’

2.9 Within a Council of no overall control this can be a difficult issue to manage. It is important that where officers seek to provide counsel of matters that do not obviously fit within the Committee’s ToR this is not seen as obstructive. A protocol for considering non-standard items for the agenda has been submitted to the Chair and Vice Chair. That includes the involvement of Independent Members within the work programme review.

2.10 In total 13 recommendations were made across the shared service and all were accepted. These are summarised at Annex B with the actions already completed or incorporated into the 2018/19 planning / 2017/18 reporting processes for January - April 2018.

2.11 A further three MK specific recommendations were made. Of those three, two recommendations duplicated the 13 service-wide recommendations and were

accepted. The third (as set out at Annex B) relates to approval of test programmes prior to audits commencing. Whilst the recommendation is accepted, a proportionate approach is adopted with testing schedules approved promptly. It is considered reasonable that there should be confidence that more experienced staff can commence work (to avoid delays) without detailed review of their proposed testing schedule. For example those recurring audits such as Payroll etc.

2.12 Key Actions

- (a) Annex C is the new, revised Audit Charter, incorporating the agreed actions. As this was approved in March 2017, if approved this will be resubmitted to the Committee in March 2019 to avoid duplication within a relatively short period of time on the Committee's agenda.
- (b) The remaining actions are either already completed or are actionable in respect of next year's audit plan.

3. Implications

- 3.1 The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakness of the control environment and to oversee the financial reporting process.
- 3.2 This report has therefore been provided within this context to ensure the committee is able to perform its core function and to consider summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.

3. Risk and Resources

None

X	Capital	x	Revenue	X	Accommodation
X	IT	x	Medium Term Plan	X	Asset Management

5. Other Implications

None

X	Equalities/Diversity	x	Sustainability	X	Human Rights
X	E-Government	x	Stakeholders	X	Crime and Disorder

Background Papers:

Public Sector Internal Audit Standards

ANNEX B

PSIAS	Issue	Recommendation		Agreed Action	
Core Principles	No significant problems were identified with following the core principles and the improved audit terms of reference aids compliance. However, failing to share good practices across LGSS does not demonstrate a commitment to the principle of quality and continuous improvement, especially as some services are performing more effectively against these standards than others	R1	Further work will be needed to embed the core principles during 2017/18, in particular ensuring that good practices are shared promptly	The Core Principles have been shared throughout the service as a reminder to staff and good practices shall be shared via: <ul style="list-style-type: none"> - A newly introduced cloud based Audit library (Huddle) - Management Team meetings that identify common themes - A monthly IA newsletter - Twice yearly Away Days 	CIA Completed
1000 Purpose, authority and responsibility	The mandatory nature of the core principles must be recognised in the Charter but not all ten of the principles have been addressed	R2	Ensure that the core principles are all included in the Charter, with an indication of how they will be delivered	A revised Charter has been drafted for approval incorporating these issues.	CIA Completed
1200 Proficiency and due professional care	Audit planning has now been greatly improved with the newly introduced terms of reference, with its focus on risk. If this is well used, the requirements of this standard will be met.	R3	Support and challenge audit staff to use the new terms of reference effectively, by sharing guidance and best practices	New Terms of Reference agreed across all sites	CIA Completed
1300 Quality assurance and improvement programme	Quality assurance is provided by monthly management team meetings which consider performance and identify areas for improvement. However, there is no terms of reference or forward plan for the team to ensure that QAIP activities are performed as anticipated.	R4	Develop a terms of reference and forward plan for the management team to include the QAIP	A ToR has been adopted alongside an annual work programme.	CIA Completed
1300 Quality assurance and improvement programme	Standard 1321 One version of the new audit report template includes the statement that the audit conforms to the requirements of the ISPPIA but this statement can only be used if the QAIP supports it, which cannot be the case while some PSIAS standards are only partially met	R5	Revise or remove the conformance statement from reports until the outcome of the QAIP supports it	Reports have been revised to exclude the statement. Consultation with S151 officers has found this comment is not required.	Cia Completed
2000 Managing the internal audit activity	Standard 2010 Although audit plans are risk-based, the plans presented to audit committees do not include an indication of the relative level of risk of each assignment and so its priority. In addition, annual audit plans do not make the link between audit work and delivery of organisational objectives nor do they emphasise how the service will be delivered in accordance with the Charter	R6	Include an indication of the risk and priority of each audit assignment in the annual plan, for example, using high, medium and low	This data is maintained within Audit software that records the Plan detail. It was excluded from AC plan reports to simplify the reports annexes. It will be reported as part of the 2018/19 plan reports	CIA 31/3/18
		R7	Make the link between organisational objectives and audit activities in the annual audit plan	Again, that information informed the plan but the recommendation is accepted to be more explicit in next years' plans.	CIA 31/3/18

		R8	Refer to delivery against the Charter in the annual audit plan	This will be included within the 2018/19 plan	CIA 31/3/18
		R9	Include information about other sources of assurance in the annual plan, showing what and from whom	This information is included within the Annual Governance Statement. It will be also included within the Annual Plan report.	CIA 31/3/18
		R10	Update the audit manual, including guidance produced by each section, and ensure that any further guidance is shared promptly	The Audit Manual has been revised and will be a specific workshop at the team Away Day on 31 st October when it will then be formally adopted.	CIA 31/10/18
2100 Nature of work	Only one of the three sections has recently undertaken an ethics audit; a second is about to start a review and the third has not included ethics in its plans for the year meaning that ethical arrangements are not examined. Audits of ethical arrangements are a requirement of the standards and support the auditor's annual opinion	R11	Ensure that audits of ethical arrangements are undertaken periodically, perhaps by including ethical considerations in all relevant audits	Ethical audits have been included within the 2017/18 plans and will be specifically highlighted within the 2018/19 plan	CIA Completed
		R12	Explore ways to deliver a robust, independent audit of risk management arrangements including using an external reviewer	Quotes are being obtained to audit risk management within the 2017/18 work programme	CIA 31/3/18
2200 Engagement planning	The newly introduced terms of reference, with its focus on risk, should ensure that all the requirements of this standard are met, especially if the risk focus is reflected in work programmes	R3	See R3 above	As above	CIA Completed
2500 Monitoring progress	Each section takes a different approach to follow ups, all of which comply with the standards, but which vary in the depth to which they go. Auditees are invited to audit committees to discuss progress against recommendations	R13	Agree a unified approach to follow ups	A unified approach has been agreed. The MK service is highlighted as taking a 'very thorough' approach to follow ups. Thus the implementation of this recommendation affects MK more than other sites with a more proportionate approach adopted	CIA Completed
MK Specific Issues					
2100 Nature of work	No audit of ethical arrangements is planned for 17/18 and no such audits have been carried out in the past.	MKR1	Ensure that an audit of ethical arrangements is undertaken periodically, perhaps by including ethical considerations in all relevant audits	As above R11	CIA Completed
2200 Engagement planning	Not all work programmes, detailing testing to be undertaken, are reviewed before being implemented meaning that auditors may carry out	MKR2	Review and sign off work programmes during the audit planning process	There is confidence that Auditors, for some audits can begin testing prior to approval of Test Programme. These will be reviewed	CIA Completed

	testing that managers subsequently deem inappropriate to assess the risks being audited			promptly if not prior to commencement.	
2500 Monitoring progress	The section follows up all audit recommendations regardless of priority. While this complies with the standards, it may not be the best use of audit resources and is a more detailed approach than that used by other audit and LGSS sections	MKR3	Adopt the agreed LGSS approach to follow ups	As above R13	CIA Completed